Illinois Department of Insurance June 3, 2002

Supplement to the 2002 Annual Report to the Illinois General Assembly on Insurance Cost Containment

George H. Ryan, Governor Nathaniel S. Shapo, Director

June 3, 2002

To the Honorable Members of the 92nd General Assembly:

The Illinois Insurance Cost Containment Act requires the Director of Insurance to submit an annual report to the General Assembly by April 15th containing his analysis of the Illinois insurance market and his recommendation of the most appropriate and comprehensive cost containment system for the state (Article XLII, 215 ILCS 5/1202d).

In accordance with the requirement of Section 1202 of the Illinois Insurance Code, I submitted the Annual Report to the General Assembly on Insurance Cost Containment for 2002 on April 15, 2002. It contained significant information on both a nationwide and Illinois basis regarding the underwriting results for the property and casualty insurance industry for the year 2000.

In the cover letter for the 2002 Annual Report, I reported that the property and casualty insurance industry had experienced significant negative changes during the last two years such as the severe hardening of some markets and the lingering effects of September 11, 2001. Due to the critical nature of these problems, I asked staff to provide a supplement to this report that would include 2001 and later data and information. This document supplements the 2002 Annual Report that was submitted on April 15, 2002.

Sincerely,

Nathaniel S. Shapo
Director

TABLE OF CONTENTS

Purpose of This Supplement

The Department of Insurance is required by statute to submit an *Annual Report to the Illinois General Assembly on Insurance Cost Containment* by April 15th of each year. Because much of the insurance company financial data necessary to compile the report are not available until March 1st, information in the Annual Report is nearly 18 months old at the time of publication. For example, the Annual Report submitted on April 15, 2002, summarizes insurance information for calendar year 2000.

However, with the significant changes in the property and casualty insurance markets over the past two years, the Department believes a more timely review of the Illinois insurance marketplace is in order. This supplemental report looks at market conditions occurring during 2001 and early in 2002 to provide a more accurate assessment of the current Illinois property and casualty industry.

Overview

The terrorist attacks on the World Trade Center in September 2001 caused the greatest insured losses of any event in the history of the United States - nearly three times more than the largest prior catastrophe, Hurricane Andrew. Compounding these losses was the fact that these events had an impact on a high number of insurance lines, including both commercial and personal property, workers compensation, and life and health insurance coverages. The September 11th tragedy has continued to have a lingering effect on insurance markets in every state, including Illinois.

In addition to the events of September 11th, other changes in the Illinois marketplace have caused great concern. The medical malpractice insurance market in Illinois is becoming more concentrated. In 1999, the loss ratio in this line in Illinois trailed the nationwide loss ratio by 10 points. In 2000 and 2001, however, the Illinois loss ratios exceeded the nationwide ratios by 23 and 18 points, respectively. The tort issue is having a severe impact in many states as the struggle between doctors and lawyers continues. Jury Verdict Research, Inc., an organization that tracks awards given to plaintiffs in the United States, reports that average jury awards continue to increase, and the average medical malpractice award is now $1,000,000. The fallout from these escalating awards, as well as from increased defense costs, has led many insurers and medical providers to leave the market.

In Illinois, the personal insurance lines, homeowners and automobile, are also experiencing difficulty. Prices in the homeowner line are on an upward trend, but remain competitive. The Department believes the price increases in 2001 can be directly related to three factors: deteriorating underwriting results - an increase in the frequency and severity of claims costs; the slumping economy; and to a lesser degree, an increase in reinsurance premiums. Losses have been on an upward trend while insurer investment income has declined. Like other midwestern states, Illinois was hit hard by weather related events in 2000. However, some of the states in this area of the country experienced even worse results than Illinois. Minnesota is one of those states. For perspective, reporter, Donna Halvorsen, in her *Minneapolis Star Tribune* March 21, 2002, article, “Minnesota home insurance rising by storm,” wrote that one of their top four homeowners insurers paid out $1.70 for every Minnesota premium dollar received during the past three years and $2.07 during the past five years. In this article Mark Kulda, spokesperson for the Insurance Federation of Minnesota, suggests that reinsurers have contributed to the prices that policyholders pay for insurance. Mr. Kulda states, “The September 11th terrorist attacks are a factor because most of the $50 billion-plus costs of insuring losses they caused was paid by reinsurance companies -- companies that shield insurance companies from excessive losses. Now, insurance companies are having their own premiums raised, and they’re passing on some of those costs to policyholders.”

The Illinois record is similar to Minnesota and other north central states. In Illinois, the homeowners loss ratios for 2001 were significantly affected by bad weather during the year. In fact, the loss ratio for 2001 in Illinois in the homeowners line is projected to be increasing to 109. Individual companies are raising their rates by as much as 20% in a single jump, not uncommon in the mid-western states. These dramatic increases are an area of concern.

To a lesser extent, the automobile line is also experiencing price increases. The *Illinois Personal Lines Premium Report for Year 2000* (*Personal Lines Report*) compares premiums for two driver types (driver 1 is a 16 year old single male occasional operator and driver 2 is a 36 year old married principal driver) for 21 Illinois and 41 non-Illinois locations. Prices were provided for automobile insurance in each location for a Ford Taurus LX 4-Door with specified insurance criteria by 29 insurance providers. While no data are readily available for 2001, the *Personal Lines Report* indicated that from 1998 to 2000, most of the surveyed cities in Illinois experienced premium increases. Nevertheless, these Illinois cities continued to rank in the lower two quartiles (lower premiums) in the locations surveyed. It is noteworthy that the three locations in Chicago exhibited little increase (.5% for driver 1 and driver 2 for Chicago 1- zip code 60608), mixed results (-2.0% for driver 1 and .1% for driver 2 for Chicago 2 - zip code 60620) and a significant decline (-10.7% for driver 1 and -8.9% for driver 2 for Chicago 3 - zip code 60625).

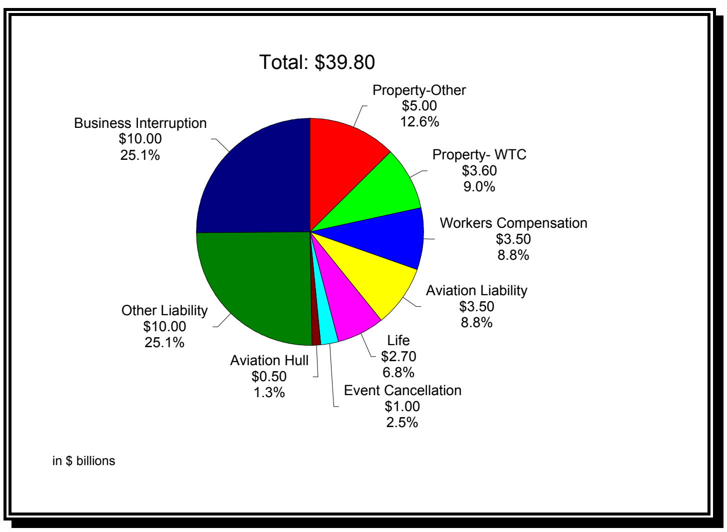
The World Trade Center

According to Morgan Stanley and the Insurance Information Institute, the terrorist attack on the World Trade Center in September 2001 may account for more than $40 billion of total insured losses. The Insurance Services Office, Inc. estimates that property damages will exceed $16.6 billion, including claims for business income lost due to direct damage and the ban on all types of traffic that caused many businesses to close. This initial estimate is likely to climb upward as lawsuits are still being filed.

The World Trade Center disaster is unusual in that it has had an enormous effect on many sectors of the U.S. insurance industry. Generally, natural disasters hit homeowners and automobile insurers very hard. The terrorist attacks most severely affected the commercial insurance lines.

Figure 1 provides a breakdown of the $39.8 billion of insured losses for the September 2001 event.

Figure 1
September 11, 2001 Insurance Industry Loss Estimates as of January 2002



Source: *The Insurance Information Fact Book 2002*.

Reinsurers are reevaluating their risks and are either limiting the amount of coverage they are willing to assume or are excluding coverages that previously were assumed - giving little thought to the concentration of the risk insured in the underlying policies. As a member of the National Association of Insurance Commissioners' (NAIC) Reinsurance Task Force, the Department participated in a January 2002, public forum held in Washington D.C. relating to the Availability and Affordability of Terrorism Reinsurance. Two significant points made by the insurance industry at this forum were: the aggregate exposure concentrated in one facility can be enormous and since September 11, 2001, some insurance brokers have quoted rate increases as high as 200%.

Since January 1, 2002, the Department has received form filings from a large number of companies or company groups that either eliminate terrorist coverage or reduce the amount of coverage available. The forms filed are for both property and liability policies. To date, the Department can identify more than twenty reinsurers that have dropped the terrorist coverage from the primary insurers' treaties. This reassessment by the reinsurance markets is affecting both the commercial and the personal lines of insurance.

Analysis of Specific Lines

Workers' Compensation

The terrorist issue has had a devastating impact on the workers' compensation insurance market, as nationwide claims were estimated to be $3.5 billion. Insurers cannot exclude or limit terrorist coverage in these policies; therefore, many of the insurers are simply not offering to renew some accounts. There have been large increases in both the number of submissions and the amount of premiums written in the assigned risk market for workers' compensation. In 2000, direct written premium for workers' compensation insurance in Illinois was $1.566 billion. Of this amount, 3.2% was placed in the residual market.

Figures 2 and **3** provide market share information for the top ten writers of workers' compensation in Illinois for 2001 and 2000, respectively.

Figure 2
Top 10 Workers Compensation Insurers in Illinois - 2001

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licen ses & Fees
Combined Specialty Ins Co	6.3%	$117,053	$100,186	100.1%	8.4%	26.2%	1.0%
Zurich American Ins Co	3.5%	$66,248	$55,645	92.8%	-0.1%	9.5%	2.1%
Liberty Mut Ins Co	3.0%	$56,907	$57,890	84.5%	7.2%	2.5%	5.4%
Commerce & Industry Ins	3.0%	$56,628	$29,754	60.1%	7.5%	16.1%	0.6%
Travelers Ind Co of IL	2.8%	$52,300	$54,398	54.6%	8.1%	6.2%	3.4%
Liberty Mut Fire Ins Co	2.8%	$52,067	$45,342	115.1%	6.2%	0.4%	5.2%
Cincinnati Cas Co	2.5%	$47,586	$36,004	78.5%	5.6%	6.5%	1.7%
St Paul Fire & Marine Ins	2.4%	$44,222	$32,366	79.4%	5.6%	10.0%	2.3%
West Bend Mut Ins Co	1.7%	$31,443	$27,569	78.5%	4.0%	8.7%	1.3%
General Cas Co of IL	1.5%	$28,105	$26,484	89.1%	3.9%	11.4%	1.5%

Figure 3
Top 10 Workers Compensation Insurers in Illinois - 2000

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licen ses & Fees
Liberty Mut Fire Ins Co	4.9%	$76,358	$50,466	155.7%	12.1%	0.5%	3.5%
Combined Specialty Ins Co	4.5%	$71,032	$60,913	177.0%	18.1%	26.4%	1.3%
Lumbernens Mut Cas Co	3.3%	$52,396	$74,726	21.9%	1.7%	-4.4%	1.3%
Liberty Mutual Ins Co	2.8%	$43,267	$38,003	59.5%	6.0%	3.0%	3.6%
Travelers Indemnity of IL	2.6%	$40,942	$35,473	130.5%	10.9%	11.3%	4.2%
American States Ins Co	2.0%	$30,753	$33,095	58.7%	2.2%	11.6%	2.0%
Cincinnati Casualty Co	1.8%	$28,075	$26,825	73.7%	5.4%	6.2%	2.3%
Zurich American Ins Co	1.7%	$26,444	$24,030	72.5%	9.7%	9.4%	1.6%
Transcontinental Ins Co	1.6%	$25,181	$24,717	124.3%	3.2%	9.8%	0.4%
Legion Ins Co	1.6%	$25,025	$21,449	108.9%	6.4%	16.8%	9.7%

On December 31, 2001, the Illinois total direct written premium for this line was $1.870 billion with the residual market accounting for 5.7% of the total premiums. In actual dollars, the residual market grew from approximately $55 million on December 31, 2000, to $107.4 million on December 31, 2001, an increase of almost 100%. In comparison, new submissions during this period grew by approximately 3000, a 22% increase. The National Council on Compensation Insurance, Inc. has indicated that the new submissions were generally for larger accounts or accounts having classifications with higher rates.

Figure 4, on the following page, illustrates the premium growth in Illinois for the workers' compensation residual market in 2001. These premium amounts represent a twelve month rolling total. For example, for the twelve month period ending January 31, 2001, the total written premium was $58.3 million.

Figure 4
Rolling Total Premiums for Workers' Compensation Residual Market for January - December 2001

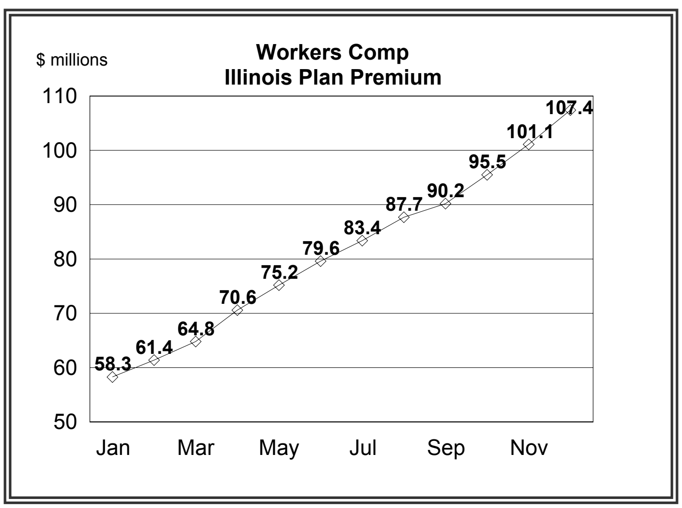
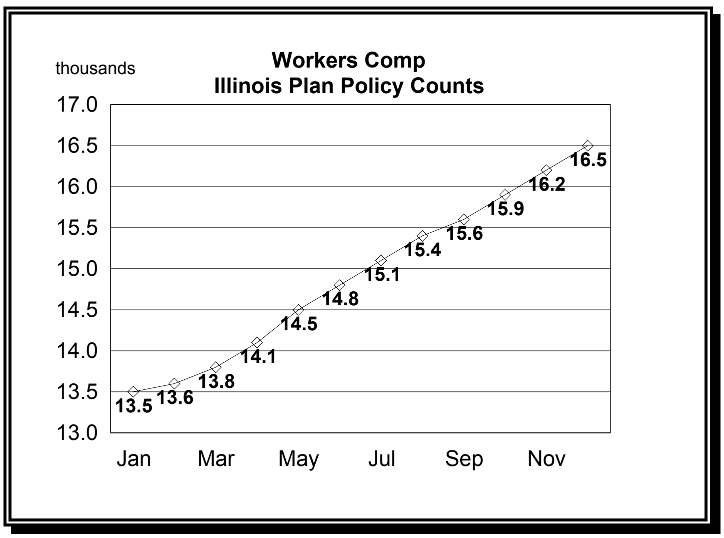


Figure 5, illustrates the increase in policy counts in Illinois for the workers' compensation residual market in 2001. These policy counts represent a twelve month rolling total. For example, for the twelve month period ending May 31, 2001, the total policy count was 14,500.

Figure 5
Rolling Total Policy Count for Workers' Compensation Residual Market for January - December 2001



The Insurance Services Office (ISO) has filed a terrorist endorsement for all commercial property and liability coverages other than workers' compensation which limits coverage. This endorsement has been adopted in Illinois. However, there are still insureds in Illinois that need or require higher limits than are provided by the ISO endorsement. Also, there are insurers that are unwilling or are unable, due to the lack of reinsurance, to write limits up to the $25 million threshold set by the ISO endorsement.

Medical Malpractice

The Illinois department of Insurance is monitoring the medical malpractice insurance line very closely because of the many withdrawals and business run-offs of several insurers. Frontier Insurance Company has left the Illinois medical malpractice market. St. Paul Companies withdrew from the market on March 19, 2002 and the Chicago Insurance Company is withdrawing on June 6, 2002. Lawrenceville Property and Casualty Company began its business run-off in March of 2002. In addition to the withdrawals, the insolvency of Phico Insurance Company on February 1, 2002, has further affected this market.

According to *Medical Economics*, between 1995 and 2000, the nationwide average claim payment in cases involving primary care physicians jumped from $150,011 to $247,460, a 65% increase. From 1999 to 2000, the median jury award increased from $700,000 to $1 million, a 43% increase.

Nursing homes have also been hard hit by the increases in premiums demanded for medical malpractice professional liability coverage. In June of 2001, the Illinois Council on Long Term Care conducted a survey of their members and found that most were experiencing premium increases. Several members reported recent per-bed costs for insurance increasing in excess of 100%. The Department has received a small number of complaints from producers who think the increases in premiums in this market are unwarranted. Again, litigation, and the threat of it, against these providers appears to be driving these increases. Although there are still markets for this insurance, the cost to the consumer has escalated dramatically.

Figure 6 compares the 2001 Illinois and nationwide underwriting results for the medical malpractice line.

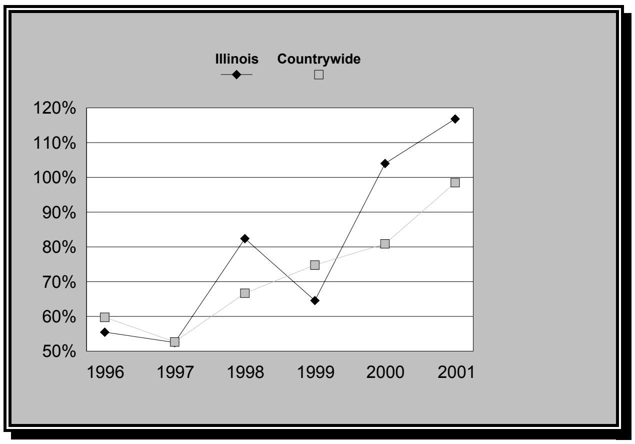
Figure 6
Medical Malpractice Underwriting Results (2001)

Medical Malpractice ($000 omitted)	**Illinois***	**Countrywide****
Direct written premiums	$388,120	$7,008,577
Direct earned premiums	$361,898	$6,544,276
Expenses (*% earned premium)*		
Incurred losses	116.8%	98.5%
Def. & cost cont. exp. incurred	33.0%	29.0%
Comm./brokerage	7.9%	6.9%
Taxes, licenses & fees	0.8%	2.4%

* Source: NAIC State Data Network, 2001 Illinois State Page Exhibit, Aggregate Totals of 76 Property/Casualty Companies.
**Source: NAIC State Data Network, 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 217 Property/Casualty Companies.

Figure 7 compares the loss percentages for Illinois and nationwide in the medical malpractice line for the period 1996 to 2001.

Figure 7
Medical Malpractice Losses as a % of Premiums Earned (1996-2001)



Figures 8 and **9** compare market shares of the top ten Illinois medical malpractice insurers for 2001 and 2000, respectively.

Figure 8
Top 10 Medical Malpractice Insurers in Illinois - 2001

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Ill. State Med Interins Exch	53.5%	$207,795	$188,749	72.8%	27.7%	5.8%	0.0%
St Paul Fire & Marine	7.3%	$28,312	$27,932	240.5%	21.4%	5.1%	2.0%
Pronational Ins Co	4.6%	$17,769	$17,287	111.2%	44.4%	8.1%	1.5%
APSpeciality Ins Corp	4.6%	$17,688	$17,895	72.2%	34.3%	9.4%	0.8%
Chicago Ins Co	3.1%	$12,106	$10,543	33.2%	-6.3%	23.8%	2.5%
Physicians Ins Co of WI	2.4%	$9,279	$8,339	48.5%	24.4%	14.6%	1.8%
Doctors Co an Interins Ex	2.3%	$9,113	$10,080	186.3%	79.8%	9.6%	2.4%
Lawrenceville Prop & Cas	2.3%	$8,890	$8,413	108.3%	16.8%	5.0%	3.9%
Medical Protective Co	2.2%	$8,648	$8,552	20.8%	10.3%	4.2%	-0.2%
Continental Cas Co	2.0%	$7,707	$5,319	348.4%	61.4%	15.1%	0.0%

Figure 9
Top 10 Medical Malpractice Insurers in Illinois - 2000

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Ill. State Med Interins Exch	44.6%	$163,848	$164,673	68.6%	19.8%	4.4%	0.1%
Illinois Natl Ins Co	6.3%	$23,327	$23,340	160.4%	16.5%	0.6%	2.1%
Pronational Ins Co	4.9%	$17,923	$17,956	108.1%	38.9%	8.3%	1.2%
Continental Ins Co	4.9%	$17,881	$17,881	34.8%	-2.3%	0.1%	0.2%
American Continental	4.3%	$15,917	$19,197	314.2%	23.2%	5.1%	0.8%
APSpecialty Ins Corp	4.3%	$15,800	$14,591	93.8%	26.2%	11.5%	1.4%
St Paul Fire & Marine	4.1%	$14,956	$16,645	336.0%	25.8%	4.7%	1.8%
Lawrenceville P&C Co	2.1%	$7,897	$6,715	76.4%	32.7%	5.0%	0.8%
Doctors Co an Interins Ex	1.9%	$7,024	$6,263	212.0%	25.8%	10.7%	3.2%
Firemans Fund Ins Co	1.8%	$6,536	$6,475	31.8%	35.2%	10.8%	2.1%

Personal Lines

The personal lines of insurance, homeowners and private passenger automobile, are suffering the same fate, albeit for different reasons. Homeowners' premiums have increased and continue to rise at an alarming rate. The weather and flood-related losses suffered over the last two years have been staggering. Insurance Services Office's (ISO) Property Claim Services, reported that Illinois catastrophic losses were $143 million in 2000. That total jumped to $260 million in 2001 and include:

- $110 million from flooding, tornados and wind on August 1st through August 2nd.
- $50 million from flooding on October 12th through October 16th.
- $50 million from wind, hail, tornados, and flooding on April 6th through April 12th.
- $45 million from flooding, hail, tornados, and wind on October 23rd through October 24th.
- $5 million from wind, hail, tornados, and flooding from June 9th through June 12th.

In the Department's past annual reports, including the *Annual Report* released on April 15, 2002, we used data from the National Climate Data Center (NCDC) to estimate Illinois catastrophic losses. After review, we have found that the NCDC database does not include all events or accurately reflect the magnitude of many Illinois storms, resulting in a significant understatement of the associated losses. We are more comfortable with the accuracy and completeness of the Property Claims Services data. In addition, these data help explain the acceleration in the Illinois homeowners loss ratio in recent years.

The loss ratio for the homeowners line in Illinois, after increasing dramatically in 2000, is projected to be increasing another 10-11 points to 109.0 in 2001. Individual companies are raising rates by 10 to 24% in a single jump. Illinois has not experienced this magnitude of increases in many years. Many analysts have argued that Illinois insurers have been underpricing their homeowners coverage for several years. In fact, many of the rate changes in the past have been decreases, not increases. The Department believes that Illinois' highly competitive market has contributed to the stability of the rates in the homeowner line during the last five years. In an effort to maintain their market shares and be competitive with the larger companies, the smaller companies followed the lead of the larger companies and generally did not raise their premiums in Illinois. This is another example of the free market concept working well.

However, even with these increases in premiums, Illinois consumers benefit from some of the lowest premiums in the nation. The Department's *Illinois Personal Lines Premium Report for Year 2000* compared eighteen Illinois cities and three locations in Chicago with 43 similar non-Illinois locations – matched by size and geo-economic makeup for the year 2000. The Department assigned each of the selected cities in the sample to one of four groups based on the city's population. The groups included: cities with population of 1 million or greater; cities with population of 100,000 – 250,000; cities with population of 50,000 – 99,999; and cities with population less than 50,000. The coverage criteria were homes valued at $75,000 and $150,000 covered by an HO-3 one family dwelling policy, $250 deductible, 20 years old, $300,000 personal liability, and $5,000 medical payments. The Department requested premiums for homes of frame and masonry construction.

For cities with population over 1 million, Chicago's three locations exhibited premiums that were 9th, 19th, and 20th out of 21 locations for both $75,000 frame homes and $75,000 masonry homes. For the $150,000 frame homes and masonry homes, the three Chicago locations ranked 14th, 20th, and 21st out of 21 locations. In the Chicago zip codes of 60608, 60620, and 60625, the average cost of insurance was $380, $603, and $382, respectively, for $75,000 frame homes and $347, $549, and $348, respectively, for $75,000 masonry homes. The distribution for the $75,000 frame home ranged from a low of $369 in a New York City location to a high of $1,199 in a Houston, Texas location. The median was $560. The distribution for the $75,000 masonry home ranged from a low of $339 in a New York City location to a high of $960 in a Houston, Texas location. The median was $534.

For the $150,000 homes, the three Chicago locations exhibited premiums of $576 (zip code 60608), $920 (zip code 60620), and $578 (zip code 60625), for frame homes and $526 (zip code 60608), $837 (zip code 60620) and $528 (zip code 60628), respectively, for homes that were of masonry construction. The distribution for the $150,000 frame home ranged from a low of $576 in a Chicago location (zip code 60608) to a high of $2,017 in a Dallas, Texas location. The median was $1,027. The distribution for the $75,000 masonry home ranged from a low of $526 in a Chicago location (zip code 60608) to a high of $1,611 in a Dallas, Texas location.

In the *cities with population of 100,000 to 250,000* group, four Illinois cities occupy four of the five lowest premiums for homes valued at $75,000 (frame and masonry) and the four lowest premiums for homes valued at $150,000 (frame and masonry). For a home valued at $75,000, the lowest five premiums for frame and masonry construction respectively were for Aurora, Illinois ($343 and $313), Rockford, Illinois ($324 and $296), Worcester, Massachusetts ($320 and $290), Joliet, Illinois ($316 and $289), and Peoria, Illinois ($313 and $286). The highest premiums in this group were in Amarillo, Texas ($1,236 and $995). For a home valued at $150,000 for this group, the lowest four cities were Aurora, Illinois ($520 and $474), Rockford, Illinois ($490 and $447), Joliet, Illinois ($482 and $440), and Peoria, Illinois ($474 and $433).

Figure 10 compares the 2001 Illinois and nationwide underwriting results for the homeowners line.

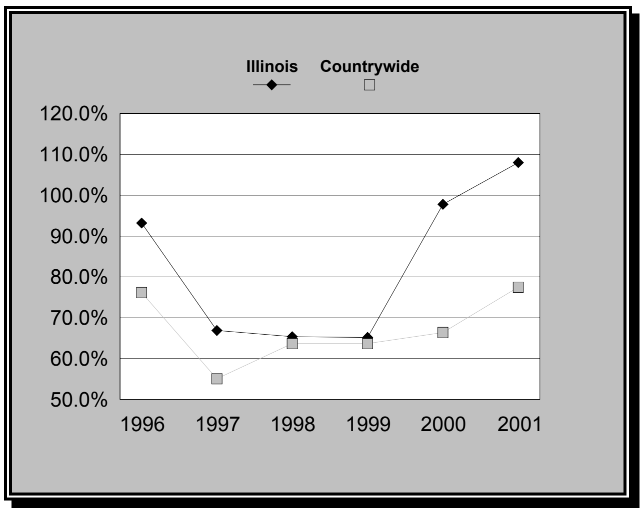
Figure 10
Homeowners Underwriting Results
(2001)

Homeowners ($000 omitted)	**Illinois***	**Countrywide****
Direct written premiums	$1,426,818	$36,527,798
Direct earned premiums	$1,368,839	$35,139,608
Expenses (*% earned premium*)		
Incurred loss	108.4%	77.5%
Def. & cost cont. exp. incurred	2.6%	2.9%
Comm./brokerage	15.0%	14.5%
Taxes, licenses & fees	1.7%	2.6%

* Source: NAIC State Data Network, 2001 Illinois State Page Exhibit, Aggregate Totals of 237 Property/Casualty Companies.
**Source: NAIC State Data Network, 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 919 Property/Casualty Companies.

Figure 11 compares the loss percentages for Illinois and nationwide in the homeowners line for 1996 to 2001.

Figure 11
Homeowners Losses as a % of Premiums Earned (1996-2001)



Figures 12 and **13** compare market shares of the top ten Illinois homeowners insurers for 2001 and 2000, respectively.

Figure 12
Top 10 Homeowners Insurers in Illinois - 2001

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Fire & Cas Co	31.2%	$445,835	$433,013	104.5%	2.1%	13.6%	2.1%
Allstate Insurance Co	11.1%	$158,797	$162,483	125.2%	2.5%	9.7%	1.1%
Illinois Farmers Ins Co	7.1%	$101,830	$94,550	124.8%	6.6%	20.6%	1.2%
Country Mutual Ins Co	6.4%	$91,200	$88,856	66.7%	0.8%	14.5%	2.4%
American Family Mutual	5.5%	$78,568	$75,836	109.8%	2.4%	16.5%	1.6%
Safeco Ins Co of Ill.	2.4%	$34,008	$34,691	125.4%	1.3%	16.8%	1.0%
Economy Preferred Ins Co	2.1%	$29,520	$40,866	86.1%	0.7%	12.4%	0.5%
Allstate Indemnity	1.8%	$26,015	$14,893	103.5%	1.2%	37.1%	1.1%
Travelers Prop & Cas of Ill.	1.5%	$21,047	$19,201	123.7%	1.9%	21.4%	3.6%
Economy Fire & Cas Co	1.3%	$18,977	$19,688	73.0%	0.5%	23.3%	0.7%

Figure 13
Top 10 Homeowners Insurers in Illinois - 2000

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Fire & Cas Co	30.9%	$407,524	$405,158	92.4%	1.3%	13.8%	0.5%
Allstate Ins Co	12.7%	$167,361	$165,672	94.6%	1.8%	10.6%	1.4%
Illinois Farmers Ins Co	6.8%	$89,597	$84,601	101.4%	4.5%	18.3%	1.2%
Country Mutual	6.5%	$86,086	$83,540	74.9%	1.4%	14.4%	-0.2%
American Family Mutual	5.5%	$72,666	$70,152	94.9%	2.0%	17.3%	2.1%
Economy Preferred	3.2%	$42,656	$41,732	98.9%	2.8%	18.2%	1.0%
Safeco of Illinois	2.7%	$35,153	$31,278	131.0%	4.0%	19.4%	1.2%
Economy Fire & Casualty	1.5%	$20,249	$20,731	89.2%	2.3%	23.6%	1.9%
Travelers P&C of Ill.	1.3%	$17,643	$16,316	88.9%	2.6%	20.9%	2.4%
Cincinnati Ins Co	1.0%	$12,938	$12,802	72.5%	1.8%	21.0%	1.6%

Although not as dramatic as in the homeowners sector, prices in the private passenger automobile line have begun to increase as reflected in the *Personal Lines Report*, recently published by the Department. It is important to note that premium data are reported for a specific private passenger automobile (Ford Taurus LX 4-Door) for specific locations across the state for two driver types only: a 16 year old single male and a 36 year old married principal driver. Based on the *Personal Lines Report*, premium increases are noted throughout downstate Illinois; however, the Chicago average combined premiums increased minimally or exhibited a decline, as did East St. Louis. Increases in downstate premiums are ranging from 3.09% (36 year-old married at Springfield, IL) to 16.01% (16 year-old single male at Decatur, Il) with an average of 10.5%. From 1999 to 2000, combined premiums increased by 6.0% on average for cities of 100,000 to 250,000 population; 7.5% on average for cities of 50,000 to 99,999 population; and 10.4% on average for cities of less than 50,000 population.

Smaller cities have seen larger premium increases. However, Illinois' largest cities exhibited average combined premiums below or slightly above the median premium for all locations tested. In all other cities except East St. Louis, the premiums for Illinois consumers generally fell within the lower three quartiles of their respective city groups. Non-standard companies, companies writing coverage on non-standard automobile policies primarily in the urban areas of Illinois, are experiencing difficulties. Some of these companies have left the scene altogether, while we have seen a consolidation on the part of others. This will certainly lead to fewer overall players in these areas, but how this will affect consumers is still unknown.

Figure 14 compares the 2001 Illinois and nationwide underwriting results for the private passenger automobile line.

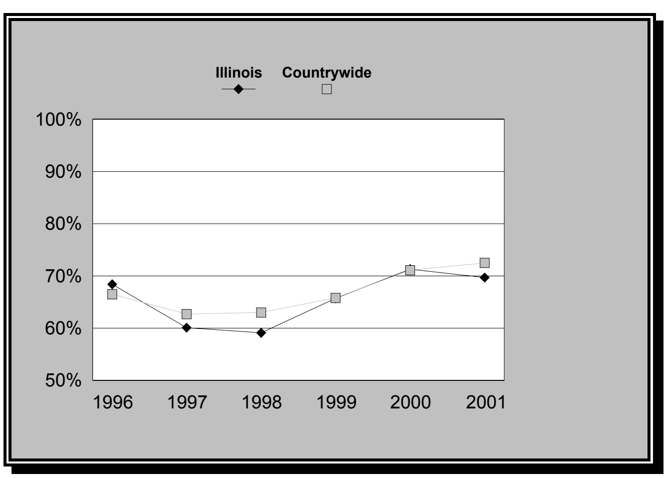
Figure 14
Private Passenger Automobile Underwriting Results (2001)

Private Passenger Automobile ($000 omitted)	**Illinois***	**Countrywide****
Direct written premiums	$4,862,894	$125,442,140
Direct earned premiums	$4,760,904	$123,108,840
Expenses (*% earned premium)*		
Incurred losses	69.7%	72.5%
Def. & cost cont. exp. incurred	3.0%	2.9%
Comm./brokerage	10.5%	9.3%
Taxes, licenses & fees	1.1%	2.3%

* Source: NAIC State Data Network, 2001 Illinois State Page Exhibit, Aggregate Totals of 324 Property/Casualty Companies.
**Source: NAIC State Data Network, 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 1029 Property/Casualty Companies.

Figure 15 compares the loss percentages for Illinois and nationwide in the private passenger automobile line for the period 1996 to 2001.

Figure 15
Private Passenger Auto Losses as a % of Premiums Earned (1996-2001)



Figures 16 and **17** compare market shares of the top ten Illinois private passenger automobile insurers for 2001 and 2000, respectively.

Figure 16
Top 10 Private Passenger Auto Insurers in Illinois - 2001

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Mutual Auto	30.0%	$1,461,246	$1,433,983	79.4%	3.2%	7.3%	0.8%
Allstate Ins Co	8.8%	$427,439	$432,324	53.0%	3.5%	9.9%	1.2%
Country Mutual	6.1%	$294,488	$293,588	61.1%	1.3%	10.0%	1.0%
Illinois Farmers Ins Co	5.3%	$257,335	$254,481	62.9%	1.0%	13.7%	0.7%
American Family Mutual	4.4%	$213,897	$211,944	67.4%	3.9%	9.1%	1.3%
State Farm Fire & Casualty	2.0%	$97,912	$84,822	100.8%	3.0%	11.4%	0.8%
Allstate P&C Ins Co	1.6%	$77,135	$63,563	70.3%	3.3%	14.2%	0.9%
Safeco Ins Co of IL	1.3%	$63,329	$51,538	66.1%	2.0%	13.5%	0.8%
Geico General Ins Co	1.2%	$59,845	$60,601	64.5%	1.7%	0.2%	0.2%
Mid-Century Ins Co	1.2%	$56,813	$57,034	57.9%	1.0%	9.1%	2.4%

Figure 17
Top 10 Private Passenger Auto Insurers in Illinois - 2000

Company	Illinois Market Share	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokera ge Expense s	Taxes, Licenses & Fees
State Farm Mutual Auto	28.6%	$1,323,470	$1,374,553	81.5%	3.9%	7.2%	-0.5%
Allstate Ins Co	9.9%	$460,136	$471,885	54.4%	2.5%	9.6%	1.2%
Country Mutual Ins Co	6.2%	$288,133	$285,956	67.2%	1.5%	10.5%	-0.5%
Illinois Farmers Ins Co	5.2%	$240,855	$236,633	71.2%	2.8%	12.1%	0.7%
American Family Mutual	4.4%	$203,678	$198,882	76.7%	4.4%	9.3%	1.5%
Economy Preferred Ins Co	1.6%	$73,852	$75,001	77.7%	2.6%	15.6%	0.6%
American Ambassador Cas	1.4%	$63,597	$65,512	50.2%	3.6%	23.7%	-0.1%
Allstate Indemnity Co	1.3%	$61,090	$64,323	66.3%	4.1%	8.3%	1.1%
Geico General Ins Co	1.3%	$60,712	$58,401	71.8%	1.5%	0.1%	0.0%
Valor Ins Co	1.3%	$59,151	$57,989	49.2%	1.8%	24.0%	0.8%

Beyond 2001

Where will these changes take the market in Illinois? The hardening commercial markets experienced in 2001 are expected to continue through 2002. Both availability and affordability in certain lines of insurance are going to be affected. We are already seeing a premium increase in the Surplus Lines Association. During the first three months of 2002, total written premiums have reached $111.0 million. In the same period of 2001, total written premiums were $75.9 million. The $35.1 million increase in premiums is almost entirely in the liability lines. These premiums have been relatively flat for a number of years. Where coverage is available in the standard market, prices are more than likely going to increase. Availability will most likely affect the very large consumer account more than the smaller, *main street* type accounts. Deductibles and self insured retention amounts are going to increase and many consumers will be looking into the non traditional markets for coverage - risk retention groups, off shore captive self insurers and others. In a sentence, difficult times lie ahead.

We expect premium increases in both the homeowners and automobile lines. The frequency and severity of claims have increased, particularly in the homeowners line, while investment income has declined. In spite of the adversity experienced by Illinois insurers, insureds in Illinois continue to pay competitive prices for automobile and homeowners insurance.

The Department will continue to strive for the optimal environment where insurance is accessible, affordable, and readily available and where insurers can generate reasonable profits. The Illinois property and casualty industry has proven that it can adjust to market changes. External factors such as terrorism, a significant increase in the cost of goods and services, the slumping economy, increased reinsurance premiums, and an increased litigiousness all contributed to the bad insurance results of 2001.

We believe that the open competition system allows insurers to succeed and allows consumers to purchase insurance at a reasonable price. Many Illinois insurers have ridden up and down the volatile insurance cycles in the past; thus, they should be prepared for the potential that a particular market may suddenly turn. Insurers should have a contingency plan that they can follow when bottom line results are less than favorable. Insurers that are customer oriented, pay attention to the demands of the technological age, have a contingency plan, and use common sense in their underwriting, expansion, and management policies will succeed, to the benefit of consumers, under any market conditions.

Following the enormous losses on September 11th and the rest of 2001, the property and casualty market has begun to rebound. We have already seen that opportunity still exists in the market. More than $24 billion in new capital has been raised since September 11, 2001, and invested into the reinsurance markets. Although overall capacity has increased, the capital allocated to certain risks, such as environmental, medical malpractice, and terrorism, remains deficient for market demands.

The Department continues to believe that a market that is governed by open competition will result in the most efficient system of insurance cost containment. Under this system, in the past, the industry has adjusted to changes in market conditions and remained efficient, supplying adequate coverage at fair prices. Under open competition insurers can react to marketplace changes more rapidly than insurers in rate approval environments where there are inherent lag times in attempting to maintain rate adequacies. Thus, the Department recommends no changes to the current regulatory environment. Through vigilant monitoring of the marketplace, particularly, in the personal insurance, workers' compensation, and medical malpractice lines, the Department will continue to identify problems and, when needed, formulate regulatory solutions.

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Requests for copies of this report or questions regarding any information contained in this report should be directed to the Cost Containment Section, Illinois Department of Insurance, 320 W. Washington, Springfield, Il 62767-0001. Phone (217) 785-2228; Fax (217) 782-2244. Printed by the authority of the State of Illinois.

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